

**ILLINOIS RURAL ELECTRIC COOPERATIVE
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 12 PENSION PLANS (CONTINUED)

Plan Information (Continued)

Contributions in 2013 are significantly higher than those in 2012 due to the Cooperative electing to participate in the prepayment option offered to participating employers in 2013.

For the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was between 80 percent funded on January 1, 2013 and between 65 percent and 80 percent funded at January 1, 2012 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

At the December 2012 meeting of the I&FS Committee of the NRECA Board of Directors, the Committee approved an option to allow participating cooperatives in the RS Plan to make a contribution prepayment and reduce future required contributions. The prepayment amount is a cooperative's share, as of January 1, 2013, of future contributions required to fund the RS Plan's unfunded value of benefits earned to date using RS Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative's annual RS Plan required contribution as of January 1, 2013. After making the prepayment, for most cooperatives the billing rate is reduced by approximately 25%, retroactive to January 1, 2013. The 25% differential in billing rates is expected to continue for approximately 15 years. However, changes in interest rates, asset returns, and other plan experience different from expected, plan assumption changes and other factors may have an impact on the differential in billing rates and the 15 year period.

In addition to the above retirement plan, employees of the Cooperative are eligible for a 401(k) savings plan. The Cooperative makes a contribution of 3.5% of the eligible employees' salary into this plan. The total contribution made by the Cooperative in 2013 and 2012 was \$97,060 and \$89,568, respectively.

NOTE 13 INCOME TAXES

No provision for income taxes was recorded for the years ended December 31, 2013 and 2012.

Deferred tax assets are presented in the balance sheet as follows:

	2013	2012
Net Operating Loss Carryforwards	\$ 64,000	\$ 61,000
Valuation Allowance	(64,000)	(61,000)
Deferred Tax Assets, Net	\$ -	\$ -

ILLINOIS RURAL ELECTRIC COOPERATIVE
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 14 COMMITMENTS AND CONTINGENCIES

Purchase Commitment

Under its wholesale power agreements, the Cooperative is committed to purchase its electric power and energy requirements from Prairie Power, Inc. through 2047. The rates are subject to periodic review.

Concentration of Credit

The Cooperative extends credit to its consumers on terms no more favorable than the standard terms of the industry it serves. The Cooperative's customers are located in west central Illinois, and may be dependent on economic returns from farm crop and livestock production in that area. The Cooperative's credit risks have been anticipated and management believes that adequate provision has been made for doubtful accounts.

NOTE 15 DISCONTINUED OPERATIONS

On June 1, 2009, the Cooperative and its subsidiaries sold the assets of the propane operations, primarily held by Prather Oil Company and MidState Propane, LLC.

Assets of the discontinued operations are comprised of the following at December 31, 2013 and 2012, respectively:

	2013	2012
Cash and Cash Equivalents	\$ -	\$ 58,917
	\$ -	\$ 58,917

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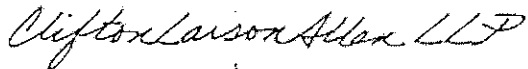
SUPPLEMENTARY INFORMATION

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**INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY INFORMATION**

Board of Directors
Illinois Rural Electric Cooperative
and Subsidiary
Winchester, Illinois

We have audited the consolidated financial statements of Illinois Rural Electric Cooperative and Subsidiary as of and for the years ended December 31, 2013 and 2012, and our report thereon dated February 10, 2014, which expressed an unmodified opinion on those consolidated financial statements, appears on page 1. Our audits were conducted for the purpose of forming opinions on the consolidated financial statements as a whole. The supplementary information identified in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



CliftonLarsonAllen LLP

Austin, Minnesota
February 10, 2014

**ILLINOIS RURAL ELECTRIC COOPERATIVE
AND SUBSIDIARY
SUPPLEMENTARY CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2013**

ASSETS	Illinois Rural Electric Cooperative	Illinois Rural Telecommunication Company
UTILITY PLANT		
Electric Plant in Service	\$ 80,707,269	\$ -
Construction Work in Progress	2,818,710	-
Total	83,525,979	-
Less Accumulated Provision for Depreciation	(14,965,728)	-
Net Utility Plant	68,560,251	-
OTHER ASSETS AND INVESTMENTS		
Investments in Associated Organizations	4,210,751	535,014
Notes Receivable	233,644	72,781
Other Investments	7,153,802	-
Other Special Funds	22,236	-
Total Other Assets and Investments	11,620,433	607,795
CURRENT ASSETS		
Cash and Cash Equivalents	2,476,947	44,631
Accounts Receivable, Net	2,084,873	-
Current Portion of Notes Receivable	74,145	86,329
Materials and Supplies Inventory	590,158	-
Other Current and Accrued Assets	2,494,609	-
Total Current Assets	7,720,732	130,960
DEFERRED DEBITS	2,853,131	-
Total Assets	<u>\$ 90,754,547</u>	<u>\$ 738,755</u>
EQUITIES AND LIABILITIES		
EQUITIES		
Patronage Capital	\$ 19,523,779	\$ -
Other Equities	14,674,869	501,662
Accumulated Other Comprehensive Loss	(1,384,600)	-
Total Equities	32,814,048	501,662
LONG-TERM DEBT, NET OF CURRENT MATURITIES	49,564,753	-
ACCUMULATED PROVISION FOR PENSION AND POSTRETIREMENT BENEFIT OBLIGATIONS	2,783,136	-
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	2,164,000	-
Notes Payable	-	237,093
Accounts Payable	2,160,663	-
Other Current and Accrued Liabilities	1,086,555	-
Total Current Liabilities	5,411,218	237,093
DEFERRED CREDITS	181,392	-
Total Equities and Liabilities	<u>\$ 90,754,547</u>	<u>\$ 738,755</u>

Eliminations	Consolidated
\$ -	\$ 80,707,269
-	2,818,710
-	83,525,979
-	(14,965,728)
-	68,560,251
-	4,745,765
-	306,425
(498,662)	6,655,140
-	22,236
(498,662)	11,729,566
-	2,521,578
(240,093)	1,844,780
-	160,474
-	590,158
-	2,494,609
(240,093)	7,611,599
-	2,853,131
<u>\$ (738,755)</u>	<u>\$ 90,754,547</u>

\$ -	\$ 19,523,779
(501,662)	14,674,869
-	(1,384,600)
(501,662)	32,814,048
-	49,564,753
-	2,783,136
-	2,164,000
(237,093)	-
-	2,160,663
-	1,086,555
(237,093)	5,411,218
-	181,392
<u>\$ (738,755)</u>	<u>\$ 90,754,547</u>

**ILLINOIS RURAL ELECTRIC COOPERATIVE
AND SUBSIDIARY
SUPPLEMENTARY CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2012**

ASSETS	Illinois Rural Electric Cooperative	Illinois Rural Telecommunication Company
UTILITY PLANT		
Electric Plant in Service	\$ 75,797,686	\$ -
Construction Work in Progress	1,433,209	-
Total	77,230,895	-
Less Accumulated Provision for Depreciation	(14,174,991)	-
Net Utility Plant	63,055,904	-
OTHER ASSETS AND INVESTMENTS		
Investments in Associated Organizations	3,203,428	618,015
Notes Receivable	199,299	159,110
Other Investments	8,140,999	-
Other Special Funds	5,259	-
Total Other Assets and Investments	11,548,985	777,125
CURRENT ASSETS		
Cash and Cash Equivalents	1,376,572	211,760
Accounts Receivable, Net	2,142,214	-
Current Portion of Notes Receivable	64,381	86,329
Materials and Supplies Inventory	768,762	-
Other Current and Accrued Assets	2,117,039	-
Total Current Assets	6,468,968	298,089
DEFERRED DEBITS	2,343,057	-
ASSETS OF DISCONTINUED OPERATIONS	-	58,917
Total Assets	\$ 83,416,914	\$ 1,134,131
EQUITIES AND LIABILITIES		
EQUITIES		
Patronage Capital	\$ 18,798,330	\$ -
Other Equities	13,303,409	508,121
Accumulated Other Comprehensive Loss	(1,721,400)	-
Total Equities	30,380,339	508,121
LONG-TERM DEBT, NET OF CURRENT MATURITIES	43,536,449	-
ACCUMULATED PROVISION FOR PENSION AND POSTRETIREMENT BENEFIT OBLIGATIONS	2,920,059	-
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	1,957,000	-
Notes Payable	1,878,623	626,010
Accounts Payable	1,354,907	-
Other Current and Accrued Liabilities	1,237,735	-
Total Current Liabilities	6,428,265	626,010
DEFERRED CREDITS	151,802	-
Total Equities and Liabilities	\$ 83,416,914	\$ 1,134,131

Eliminations	Consolidated
\$ -	\$ 75,797,686
-	1,433,209
-	77,230,895
-	(14,174,991)
-	63,055,904
-	3,821,443
-	358,409
(505,121)	7,635,878
-	5,259
(505,121)	11,820,989
-	1,588,332
(629,010)	1,513,204
-	150,710
-	768,762
-	2,117,039
(629,010)	6,138,047
-	2,343,057
-	58,917
<u>\$ (1,134,131)</u>	<u>\$ 83,416,914</u>

\$ -	\$ 18,798,330
(508,121)	13,303,409
-	(1,721,400)
(508,121)	30,380,339
-	43,536,449
-	2,920,059
-	1,957,000
(626,010)	1,878,623
-	1,354,907
-	1,237,735
(626,010)	6,428,265
-	151,802
<u>\$ (1,134,131)</u>	<u>\$ 83,416,914</u>

**ILLINOIS RURAL ELECTRIC COOPERATIVE
AND SUBSIDIARY
SUPPLEMENTARY CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2013**

	Illinois Rural Electric Cooperative	Illinois Rural Telecommunication Company
OPERATING REVENUES		
Electric Revenues	\$ 25,364,624	\$ -
Other Operating Revenue	185,248	-
Total Operating Revenues	<u>25,549,872</u>	<u>-</u>
OPERATING EXPENSES		
Cost of Power	14,646,364	-
Distribution Expense - Operations	411,037	-
Distribution Expense - Maintenance	2,561,466	-
Consumer Account Expense	445,111	-
Sales Expense	412,829	-
Administrative and General Expense	2,007,985	-
Depreciation	2,466,037	-
Other Interest Expense	22,267	-
Other Deductions	10,568	-
Total Operating Expenses	<u>22,983,664</u>	<u>-</u>
OPERATING MARGINS BEFORE FIXED CHARGES	2,566,208	-
INTEREST ON LONG-TERM DEBT	<u>1,235,216</u>	<u>-</u>
OPERATING MARGINS AFTER FIXED CHARGES	1,330,992	-
G & T AND OTHER CAPITAL CREDITS	<u>1,065,292</u>	<u>-</u>
NET OPERATING MARGINS	2,396,284	-
NON-OPERATING MARGINS		
Interest Income	94,634	-
Loss from Subsidiaries	(6,460)	-
Gain on Sale of Assets	118,424	-
Other Non-Operating Income (Loss)	99,572	(6,460)
Total Non-Operating Margins (Loss)	<u>306,170</u>	<u>(6,460)</u>
NET MARGINS	<u>\$ 2,702,454</u>	<u>\$ (6,460)</u>

Eliminations	Consolidated
\$ -	\$ 25,364,624
-	185,248
-	25,549,872
-	14,646,364
-	411,037
-	2,561,466
-	445,111
-	412,829
-	2,007,985
-	2,466,037
-	22,267
-	10,568
-	22,983,664
-	2,566,208
-	1,235,216
-	1,330,992
-	1,065,292
-	2,396,284
-	94,634
6,460	-
-	118,424
-	93,112
6,460	306,170
\$ 6,460	\$ 2,702,454

**ILLINOIS RURAL ELECTRIC COOPERATIVE
AND SUBSIDIARY
SUPPLEMENTARY CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2012**

	Illinois Rural Electric Cooperative	Illinois Rural Telecommunication Company
OPERATING REVENUES		
Electric Revenues	\$ 23,163,514	\$ -
Other Operating Revenue	187,531	-
Total Operating Revenues	23,351,045	-
OPERATING EXPENSES		
Cost of Power	13,466,189	-
Distribution Expense - Operations	461,990	-
Distribution Expense - Maintenance	2,115,059	-
Consumer Account Expense	419,547	-
Sales Expense	479,348	-
Administrative and General Expense	2,040,640	-
Depreciation	2,273,294	-
Other Interest Expense	35,689	-
Other Deductions	5,742	-
Total Operating Expenses	21,297,498	-
OPERATING MARGINS BEFORE FIXED CHARGES	2,053,547	-
INTEREST ON LONG-TERM DEBT	1,159,597	-
OPERATING MARGINS AFTER FIXED CHARGES	893,950	-
G & T AND OTHER CAPITAL CREDITS	414,126	-
NET OPERATING MARGINS	1,308,076	-
NON-OPERATING MARGINS (LOSS)		
Interest Income	104,876	-
Loss from Subsidiaries	(5,654)	-
Gain on Sale of Assets	16,065	-
Other Non-Operating Income (Loss)	58,395	(5,654)
Total Non-Operating Margins (Loss)	173,682	(5,654)
NET MARGINS	<u>\$ 1,481,758</u>	<u>\$ (5,654)</u>

Eliminations	Consolidated
\$ -	\$ 23,163,514
-	187,531
-	23,351,045
-	13,466,189
-	461,990
-	2,115,059
-	419,547
-	479,348
-	2,040,640
-	2,273,294
-	35,689
-	5,742
-	21,297,498
-	2,053,547
-	1,159,597
-	893,950
-	414,126
-	1,308,076
-	104,876
5,654	-
-	16,065
-	52,741
5,654	173,682
\$ 5,654	\$ 1,481,758

**ILLINOIS RURAL ELECTRIC COOPERATIVE
AND SUBSIDIARY
SUPPLEMENTARY CONSOLIDATING BALANCE SHEET –
ILLINOIS RURAL TELECOMMUNICATION COMPANY
DECEMBER 31, 2013**

ASSETS	Illinois Rural Telecommunication Company	Prather Oil Company
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 44,631	\$ -
Current Portion of Notes Receivable	86,329	-
Total Current Assets	<u>130,960</u>	<u>-</u>
OTHER ASSETS AND INVESTMENTS		
Investments in Associated Organizations	535,014	-
Notes Receivable	72,781	-
Other Investments	235,384	-
Total Other Assets and Investments	<u>843,179</u>	<u>-</u>
ASSETS OF DISCONTINUED OPERATIONS	<u>-</u>	<u>-</u>
Total Assets	<u><u>\$ 974,139</u></u>	<u><u>\$ -</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes Payable	\$ 472,477	\$ -
Accounts Payable	-	79,449
Total Current Liabilities	<u>472,477</u>	<u>79,449</u>
STOCKHOLDERS' EQUITY		
Common Stock	-	10,000
Treasury Stock	-	(11,000)
Contributed Capital	1,380,680	-
Other Equities	(879,018)	(78,449)
Total Stockholders' Equity	<u>501,662</u>	<u>(79,449)</u>
Total Liabilities and Stockholders' Equity	<u><u>\$ 974,139</u></u>	<u><u>\$ -</u></u>

Midstate Propane, LLC	Eliminations	Consolidated
\$ -	\$ -	\$ 44,631
-	-	86,329
-	-	130,960
-	-	535,014
-	-	72,781
-	(235,384)	-
-	(235,384)	607,795
314,833	(314,833)	-
<u>\$ 314,833</u>	<u>\$ (550,217)</u>	<u>\$ 738,755</u>
\$ -	\$ (235,384)	\$ 237,093
-	(79,449)	-
-	(314,833)	237,093
-	(10,000)	-
-	11,000	-
341,083	(341,083)	1,380,680
(26,250)	104,699	(879,018)
314,833	(235,384)	501,662
<u>\$ 314,833</u>	<u>-\$ (550,217)</u>	<u>\$ 738,755</u>

**ILLINOIS RURAL ELECTRIC COOPERATIVE
AND SUBSIDIARY
SUPPLEMENTARY CONSOLIDATING BALANCE SHEET –
ILLINOIS RURAL TELECOMMUNICATION COMPANY
DECEMBER 31, 2012**

ASSETS	Illinois Rural Telecommunication Company	Prather Oil Company
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 211,760	\$ -
Current Portion of Notes Receivable	86,329	-
Total Current Assets	<u>298,089</u>	<u>-</u>
OTHER ASSETS AND INVESTMENTS		
Investments in Associated Organizations	618,015	-
Notes Receivable	159,110	-
Other Investments	294,301	-
Total Other Assets and Investments	<u>1,071,426</u>	<u>-</u>
ASSETS OF DISCONTINUED OPERATIONS	<u>-</u>	<u>-</u>
Total Assets	<u><u>\$ 1,369,515</u></u>	<u><u>\$ -</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes Payable	\$ 861,394	\$ -
Accounts Payable	-	79,449
Total Current Liabilities	<u>861,394</u>	<u>79,449</u>
STOCKHOLDERS' EQUITY		
Common Stock	-	10,000
Treasury Stock	-	(11,000)
Contributed Capital	1,380,680	-
Other Equities	(872,559)	(78,449)
Total Stockholders' Equity	<u>508,121</u>	<u>(79,449)</u>
Total Liabilities and Stockholders' Equity	<u><u>\$ 1,369,515</u></u>	<u><u>\$ -</u></u>

Midstate Propane, LLC	Eliminations	Consolidated
\$ -	\$ -	\$ 211,760
-	-	86,329
-	-	298,089
-	-	618,015
-	-	159,110
-	(294,301)	-
-	(294,301)	777,125
373,750	(314,833)	58,917
<u>\$ 373,750</u>	<u>\$ (609,134)</u>	<u>\$ 1,134,131</u>

\$ -	\$ (235,384)	\$ 626,010
-	(79,449)	-
-	(314,833)	626,010
-	(10,000)	-
-	11,000	-
400,000	(400,000)	1,380,680
(26,250)	104,699	(872,559)
373,750	(294,301)	508,121
<u>\$ 373,750</u>	<u>\$ (609,134)</u>	<u>\$ 1,134,131</u>

ILLINOIS RURAL ELECTRIC COOPERATIVE
AND SUBSIDIARY
SUPPLEMENTARY CONSOLIDATING STATEMENT OF OPERATIONS –
ILLINOIS RURAL TELECOMMUNICATION COMPANY
YEAR ENDED DECEMBER 31, 2013

	Illinois Rural Telecommunication Company	Prather Oil Company
OPERATING INCOME		
Telecommunication Revenue	\$ 2,040	\$ -
Total Operating Income	2,040	-
OPERATING EXPENSES		
Administrative and General Expense	8,500	-
Total Operating Expenses	8,500	-
NET OPERATING LOSS	(6,460)	-
NON-OPERATING LOSS		
Other Non-Operating Loss	-	-
Total Non-Operating Loss	-	-
NET LOSS	\$ (6,460)	\$ -

Midstate Propane, LLC	Eliminations	Consolidated
\$ -	\$ (2,040)	\$ -
-	(2,040)	-
-	(8,500)	-
-	(8,500)	-
-	6,460	-
-	(6,460)	(6,460)
-	(6,460)	(6,460)
\$ -	\$ -	\$ (6,460)

**ILLINOIS RURAL ELECTRIC COOPERATIVE
AND SUBSIDIARY
SUPPLEMENTARY CONSOLIDATING STATEMENT OF OPERATIONS –
ILLINOIS RURAL TELECOMMUNICATION COMPANY
YEAR ENDED DECEMBER 31, 2012**

	Illinois Rural Telecommunication Company	Prather Oil Company
OPERATING INCOME		
Telecommunication Revenue	\$ 2,031	\$ -
Total Operating Income	2,031	-
OPERATING EXPENSES		
Consumer Accounts	200	-
Administrative and General Expense	7,467	-
Total Operating Expenses	7,667	-
NET OPERATING LOSS	(5,636)	-
NON-OPERATING INCOME		
Gain on Sale of Assets	5	-
Other Non-Operating Loss	-	-
Total Non-Operating Income	5	-
NET INCOME (LOSS) BEFORE INCOME TAXES	(5,631)	-
Provision for Income Taxes	23	-
NET LOSS	\$ (5,654)	\$ -

Midstate Propane, LLC	Eliminations	Consolidated
\$ -	\$ (2,031)	\$ -
-	(2,031)	-
-	(200)	-
-	(7,467)	-
-	(7,667)	-
-	5,636	-
-	(5)	-
-	(5,654)	(5,654)
-	(5,659)	(5,654)
-	(23)	(5,654)
-	(23)	-
\$ -	\$ -	\$ (5,654)

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CliftonLarsonAllen

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
ASPECTS OF CONTRACTUAL AGREEMENTS AND
REGULATORY REQUIREMENTS FOR ELECTRIC BORROWERS**

Board of Directors
Illinois Rural Electric Cooperative
and Subsidiary
Winchester, Illinois

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Illinois Rural Electric Cooperative and Subsidiary, which comprise the consolidated balance sheet as of December 31, 2013, and the related consolidated statements of operations, changes in patronage capital and other equities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated February 10, 2014. In accordance with *Government Auditing Standards*, we have also issued a report dated February 10, 2014, on our consideration of Illinois Rural Electric Cooperative and Subsidiary's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. No reports other than the reports referred to above and the Independent Auditors' Report on Loan Fund Expenditures have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that Illinois Rural Electric Cooperative and Subsidiary failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, Policy on Audits of Rural Utilities Service Borrowers, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Illinois Rural Electric Cooperative and Subsidiary's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding Illinois Rural Electric Cooperative and Subsidiary's accounting and records to indicate that Illinois Rural Electric Cooperative and Subsidiary did not:

Board of Directors
Illinois Rural Electric Cooperative and Subsidiary

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of plant;
- Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintain adequate control over materials and supplies;
- Prepare accurate and timely Financial and Operating Reports;
- Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures;
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and
- Comply with the requirements for the detailed schedule of investments.

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The detailed schedule of deferred debit and deferred credits required by 7 CFR Part 1773.33(g) and the detail schedule of investments in affiliated companies required by 7 CFR 1773.33(h) and provided below are presented for purposes of additional analysis and are not required parts of the basic consolidated financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Schedule of Deferred Debits

Past Service Pension Cost	\$ 273,579
Prepayment of Stranded Costs on Wholesale Power Contract	1,212,862
NRECA RS Pension Plan Prepayment	1,267,644
Wind Turbine Project	13,097
Association Dues	54,338
Other Deferred Debits	31,611
	<u>\$ 2,853,131</u>

Past Service Pension Costs were deferred in accordance with FASB Accounting Standards Codification 980-340-25 and have been approved by the Board of Directors and RUS.

Schedule of Deferred Credits

Customer Prepayments	\$ 181,392
	<u>\$ 181,392</u>

Schedule of Investments

	Illinois Rural Telecommunication Company	Prather Oil Company	MidState Propane, LLC
Principal Business	DBS & Internet Services	Propane Sales	Propane Sales
Ownership Percentage	100%	100%	100%
Original Investment Cost	\$ 3,000	\$ 1,100,000	\$ 1,500,000
Book Value of Investment as of December 31, 2011	\$ 513,775	\$ (79,449)	\$ 373,750
Undistributed Earnings as of December 31, 2012	(5,654)	-	-
Book Value of Investment as of December 31, 2012	508,121	(79,449)	373,750
Return of Capital	-	-	(58,917)
Undistributed Loss as of December 31, 2013	(6,460)	-	-
Book Value of Investment as of December 31, 2013	\$ 501,661	\$ (79,449)	\$ 314,833

This report is intended solely for the information and use of the Board of Directors, management, and the Rural Utilities Service and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

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Austin, Minnesota
February 10, 2014

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**INDEPENDENT AUDITORS' REPORT ON CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Illinois Rural Electric Cooperative
and Subsidiary
Winchester, Illinois

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Illinois Rural Electric Cooperative and Subsidiary, which comprise the consolidated balance sheet as of December 31, 2013, and the related consolidated statements of operations, changes in patronage capital and other equities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated February 10, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Illinois Rural Electric Cooperative and Subsidiary's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Illinois Rural Electric Cooperative and Subsidiary's internal control. Accordingly, we do not express an opinion on the effectiveness of Illinois Rural Electric Cooperative and Subsidiary's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Cooperative's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

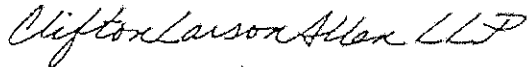
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Illinois Rural Electric Cooperative and Subsidiary's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Cooperative's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Austin, Minnesota
February 10, 2014



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INDEPENDENT AUDITORS' REPORT ON LOAN FUND EXPENDITURES

Board of Directors
Illinois Rural Electric Cooperative
and Subsidiary
Winchester, Illinois

We have audited, in accordance with U.S. generally accepted auditing standards, the consolidated balance sheet of Illinois Rural Electric Cooperative and Subsidiary as of December 31, 2013 and the related consolidated statements of operations and patronage capital and other equities and cash flows for the year then ended, and have issued our report thereon dated February 10, 2014.

During the year ended December 31, 2013, Illinois Rural Electric Cooperative and Subsidiary received no advances from NRUCFC on loans controlled by NRUCFC's Loan Agreements and Mortgage. In conducting our audit, nothing came to our attention that caused us to believe that the Cooperative was not in compliance with the intended purpose of the loan funds as contemplated in the Loan Agreement. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Board of Directors and management of Illinois Rural Electric Cooperative and Subsidiary and National Rural Utilities Cooperative Finance Corporation and should not be used for any other purpose.

CliftonLarsonAllen LLP

Austin, Minnesota
February 10, 2014